

**MINUTES OF SPECIAL MEETING**  
**2005 SERIES RA SINGLE FAMILY PROGRAM REFUNDING BONDS**  
**October 11, 2005, 12:00 P.M.**

Notice having been given, the Montana Board of Housing held a special meeting on the issuance of its Single Family Program Bond Series 2005 A. The meeting took place via teleconference to discuss the market, pricing of the bonds, and potential sale on October 19, 2005. Present were:

Board members: Bob Thomas, Susan Moyer, Judy Glendenning, J.P. Crowley, and Betsy Scanlin  
MBOH Staff: Bruce Brensdal, Chuck Nemec, Nancey Leifer, Vicki Bauer, and Diana Hall.  
Legal Council: John Wagner, Pat Melby  
UBS Financial: Peter Nolden, Mina Choo, and Steve Spitz

Bob Thomas convened the meeting after a roll call was taken and a quorum was established.

Peter Nolden updated the Board on proposed refunding of the 1995 Series B<sub>1</sub> and B<sub>2</sub> bonds. These bonds consist of two parts; \$15, 870 of outstanding Pre-Ullman bonds (not restricted to be lent to first-time homebuyers). The Board has used these bonds lendable, which are proceeds derived from repayments of principle, to recycle the funds into new loan primarily for the Board's special setaside programs. The bonds are outstanding at an interest rate of 6.40% and in the current market, they could be refunded at significantly lower rates less than 5%. An additional benefit is that the bonds can be extended out to a 39.5 year maturity and reopen a 9.5 year window. We don't mature any principle, so that the Board can continue to recycle mortgage repayments and pre-payments that are received over time for special setaside programs. The second part of the 1995 bonds were the Series B<sub>2</sub> bonds which are private activity bonds subject to the alternative minimum tax. The interest rate on the outstanding bonds is also 6.40%. They go out to a final maturity of approximately 2027 and can be replaced with under 5% bonds. They are attempting to create a pot of money. When they refund the bonds at 6.40% with lower rate bonds under 5%, we're going to increase the allowable spread allowed under the Federal tax code. The pot of money will be in the amount of approximately \$1 billion. Those proceeds, which the Board is going to relend at 0%, and it will be relended with the proceeds of the 2005 Series A bonds. The 2005 Series A program has \$30,000,000 uncommitted as of the last Board meeting where the Board took action to lower the mortgage lending rate from 5.5% to 5.25%. We will develop participations in the FHA, VA insured loans where part of each loan will be funded from 2005 A and part of the proceeds will be funded from the proceeds of this issue. The savings from this refunding will pay for the action of Board to drop the rate from 5.50% to 5.25%. Peter said MBOH is taking advantage of this economic funding opportunity which will reopen the recycling window and drop the cost of funds from 6.40% on the long bonds to less than 5% and the B<sub>2</sub>'s to create savings to provide the subsidy to move the mortgage rate to 5.25% on the 2005 Series A. No official action is needed and the Official Statement will be sent out tomorrow. The Board will meet for a regular Board meeting on the 17<sup>th</sup>. On Monday morning, a retail order period will commence for the bonds for in-state Montana retail customers only. A Conference Call at the end of the Board meeting will reveal how they did on the retail order period selling primarily the serial bonds and the interest rates that will be proposed to go out with a full offering on Tuesday. Tuesday afternoon should wrap up the bond sale and the Executive

Director will give a verbal award and all the final details into the Series Resolution. The Board will reconvene on Wednesday morning at 9a.m. on a Conference Call to confirm the final sale of the bonds and to adopt the series resolution.

Judy Glendenning asked how much has been committed since the interest rate was reduced. Nancy Leifer responded that MBOH averaged around 7 loans per day through the end of September and that is the same as the averages since April. The reduction in interest rate to 5.25% has not increased the amount of reservations so far, although reservations are usually heavier at the end of each month. At this point, there is between \$18 and \$19 million left to be reserved. Betsy asked how we buy back the bonds. John Wagner responded that we redeem the bonds and using the proceeds from the issuance of new bonds to pre-pay or redeem the old bonds. Peter said there is approximately there is \$15,870,000 of 1995 Series B<sub>1</sub> bonds and \$13,420,000 of 1995 B<sub>2</sub> bonds and they will become subject to redemption on December 1, 2005. Basically, MBOH is replacing the old bonds with an interest rate of 6.40% with new bonds with interest rates expected to be 5% or under. John explained that the assets allocable to the old bonds are transferred and become allocable to the new bonds, so the cash that was there to make loans under the old program is still there. It is just now considered allocable to the new bond issue instead of the old bond issue. Peter further clarified the Series B<sub>2</sub> bonds were used to finance mortgage loans at an average cost of 6.78%, now the bond rate will be reduced from 6.40% to 5%. We'll exceed the allowable spread allowed under Federal tax law, and we'll make that up by lending approximately \$2 million of 0% and apply the \$2 million at 0% to help leverage the remaining \$19 million from the bond issue earlier this year. The decision was made to lower the interest rate, so without the refunding MBOH would lose money. By doing the refunding, it will pay for the decision made to lower the interest rate.

There being no further business, the meeting adjourned at 12:25 p.m.

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Bob Thomas, Chairman

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Date

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Bruce Brensdal

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Date